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UK Mid Cap strategy

Increased demand for domestic exposure

- Mid and small-cap indices performed better in February
- The strategy performed strongly
- We started holdings in Moonpig Group and Auction Technology Group

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What's happening?

After pulling back at the end of January, the FTSE All-Share Index resumed its rally in February, rising over +5.5%¹ by mid-month. However, a sharp rally in bond yields globally on concerns that the improving economic outlook would be accompanied by inflationary pressures, saw it give back some of these gains in the latter half of the month. This resulted in a more muted return of +1.99%² for the month.

The mid and small-cap indices performed better in February with gains of 3.5% and 4.2%², respectively, as they benefited from the rotation to value and the increased demand for domestic exposure following the UK's swift progress on vaccine deployment.

Portfolio positioning and performance

In this environment, the strategy performed strongly in absolute terms, however it lagged its comparative benchmark, the FTSE 250 (ex-Investment Trusts) Index. From a sector perspective, the overweight position in healthcare and technology sectors detracted from relative performance, whereas the underweight position in financials was beneficial.

Positive stock performances of note included holdings in Just Group (a specialist UK financial services group focusing on the retirement income segment, Rank Group (a leisure and entertainment company) and Moonpig Group (a leading online greeting card and gifting platform). Detractors on a relative basis included EasyJet, Virgin Money, Wizz Air, Carnival and Tui, none of which are held in the strategy.

¹ Source: Bloomberg from 31/01/2021 to 15/02/2021. Total return performance in GBP.

² Source: Bloomberg as of 28/02/2021. Total return performance in GBP.

We used share price volatility to add to core holdings and make reductions. We took a new holding in Watches of Switzerland and Restaurant Group. In addition, we started holdings in Moonpig Group and Auction Technology Group as part of their IPO processes. The holding in FTSE 100 Index-listed Rightmove was sold.

Outlook

The main driver of equity markets has now become the action in the world's bond markets, as yields have rallied sharply in response to rising inflationary concerns. This is driving the performance of both markets and sectors, as investors position for this apparent reflationary environment.

Central banks to-date have suggested limited concerns with these higher bond yields; however, while they continue to rise, UK leadership is likely to be dominated by the domestic, commodity and banking sectors. It is hoped that the spike in inflation will just be a temporary effect as economies reopen again following the vaccine rollout, and that central banks are not forced into more drastic action.

Mergers and acquisitions remain a feature of the UK market as corporate and private equity buyers take advantage of depressed valuations.

In these times of volatile news and capital flow, we continue to focus on those companies that we believe can compound their earnings, and where balance sheet strength is supportive of that growth.

No assurance can be given that the UK Mid Cap Strategy will be successful. Investors can lose some or all of their capital invested. The UK Mid Cap strategy is subject to risks including; Equity; Smaller companies risk; Liquidity risk.

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